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C O N F I D E N T I A L SECTION 01 OF 02 DOHA 000710

SIPDIS

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TAGS: EFIN EINV ECON PREL QA
SUBJECT: QATAR STEPS UP MONITORING BANK LIQUIDITY AS DOHA MARKET PLUMMETS

REF: DOHA 705

Classified By: Ambassador Joseph E. LeBaron, for reasons 1.4 (b,d).

(C) KEY POINTS

-- The Qatar Financial Center (QFC) confirmed to us October 8 that the Central Bank was "being more vigilant" in monitoring banks' liquidity. Employees at the QFC and three bankers have told us in recent days that Qatar does not have a liquidity problem. The Minister of Finance, as reported reftel, maintains this position as well.

-- Qatar suffered its biggest stock market drop in nearly nine years yesterday, October 8th, plummeting 8.75%.

-- Despite rumors that the Government, presumably in the person of the Prime Minister, intervened to buy shares to shore up stocks, there is no confirmation of this.

-- A respected local banker attributes the drop in GCC stock market prices to Western institutional investors' selling of highly appreciated GCC stocks to, for example, raise cash to meet margin calls or to fund hedge fund redemptions elsewhere.

(C) COMMENT

-- Post was unsuccessful in reaching contacts at the Qatar Investment Authority (QIA) for additional comment. We understand that QIA and Qatar Financial Center officials are traveling, many to IMF meetings in Washington.

-- Even if we had been successful, there is probably not much that QIA would have divulged to us. If there is one issue about which both governments and individuals are uniformly secretive, it is their finances.

-- Meanwhile, Deputy Treasury Secretary Kimmitt is expected to lead a delegation to Qatar October 28-29, to include Undersecretary of State for Economic, Energy and Agricultural Affairs Jeffery.

-- The Qataris will be eager to hear directly from senior U.S. officials about efforts to shore up confidence in global markets. Like elsewhere, investment fear is in the air, and Qataris here are deep breathing it.

End Key Points and Comment.

¶1. (C) Following Minister of Finance Kamal's September 30 comments to the Ambassador that Qatari banks were in good

shape and did not face a liquidity crisis, officials at the QFC have reported that the Central Bank nevertheless is "being more vigilant" in monitoring banks' liquidity. Employees of three private banks hold the same view. Following a steep drop in stocks October 8, rumors began circulating in Doha that "the government" (more specifically the Prime Minister, whose personal wealth is considerable) had intervened in the course of the day to bolster stock prices on the Doha exchange. Banking contacts told us, however, they have no information to substantiate these rumors.

¶2. (U) Qatar's main stock market index, the DSM 20, suffered on October 8 its biggest drop since February 2000, plummeting by 8.75 percent. More than 27 billion Qatari Riyals (7.42 billion USD) of notional wealth was wiped away in the process, leaving many Qataris -- accustomed to the idea of rising national wealth as far as the eye can see -- stunned. Although Qatari institutional investors made a concerted effort to buy shares that were sold by foreign investors, the losses were not stemmed. More than 23 percent of Qatari institutions were net purchasers of stock during the day -- compared with 8.88 percent the previous day.

¶3. (SBU) Srikaram Venkataramanan, the Assistant Manager for Strategic Planning and Monitoring at Doha Bank, told P/E Chief October 9 that the fundamentals of Qatar's economy are sound, but the psychological effects of the global financial crisis are having a pronounced impact on Qataris, who are relatively new international investors with an investment history of only five to ten years. Since Qataris have never experienced anything close to this phenomenon before, "they

are scared." Their initial reaction, according to Venkataramanan, is to hold back on investing their money until overall global confidence rebounds. That said, they need to put their money somewhere, and this banker predicts that we will see an upward trend toward infrastructure investments in Qatar and other Gulf Cooperation Council (GCC) states as a result.

¶4. (SBU) Why invest in the region? Venkataramanan returns to his premise that the fundamentals of the region are basically sound, and the likelihood of earning long-term profits from investments in Qatar and its neighbors is more certain than investing in the West. Since the need for building infrastructure capacity in the GCC is great, and added infrastructure will promote economic growth over the longer term, these investments make sense. Another reason Qataris are now risk averse when it comes to investing in Europe and North America, says Venkataramanan, is the suffering that Qatari investors -- including the national Sovereign Wealth Fund (SWF), the Qatar Investment Authority (QIA) -- have endured in recent weeks. Many SWFs and other investors helped rescue financial institutions and have since seen the value of those investments drop substantially. While he could not speak directly to QIA's current strategy, Venkataramanan believed QIA and other major institutional Qatari investors aim to "bring their money home," where confidence in long-term returns is greater.

¶5. (SBU) Venkataramanan concluded by underscoring again that there is "no actual problem in the region" and emphasizing that the stock market fall in Qatar and elsewhere in the GCC merely reflects the cascading effect (from West to East) of the current global financial crisis. Ironically, he said, the regional stock markets plunged October 8 because the share prices on those exchanges had risen markedly in recent years, making them ripe for profit taking. What happened October 8, explained Venkataramanan, was that Western institutional investors sold off GCC stocks to finance shortfalls in operations elsewhere. For example, Venkataramanan said that Citibank needed cash urgently to cover commitments in India, so it sold stock in Qatar at a nice profit to acquire the necessary cash. It was the

short-term needs of Western institutional investors that led to the drop in stock prices, he asserted. This is why the Qatari investors who bought shares October 8 will profit handsomely from their purchases over the long-run. The fundamentals of the market in Qatar are sound, and Western institutions hungry for cash have to sell assets for now where the net cash profit is greatest. In Venkataramanan's view, Qatar and the GCC states are where the money is.

LeBaron